

Mexico Market Visit

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Transcript

The Coca-Cola Company Corporate Participants:

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I just want to kick it off and I want to welcome everybody to Mexico City, and I know you have a great agenda over the next couple of days, and we're really excited to be first on the list and to kick off a very exciting few days here, seeing Latin America as well as Mexico City. Importantly a very important market for the Coca-Cola system, and we're really excited to tell you about it today. But before I hand it over to Bruno, I just want to give everybody a heads up of who you're going to be hearing from today and a little bit about the agenda, so everyone knows what to expect. We will start off with the Coke team. We have Bruno Pietracchi, who's our OU president here in Latin America. He'll start it off and then hand it over to **Luis Avellar, who is the President of Mexico Operations**, and they'll tell you a little bit about the market and all the exciting things we have going on here in Latin America.

And then they will pass it on over to two of our largest bottlers here with us today, not only in the Latin American region, but also in the world. We have Ian Craig, the CEO of FEMSA here, and he'll be presenting with Nico Bertelloni, who is the Chief Growth Officer, and then we have Arturo Gutierrez, who is the CEO of Arca, and he'll be presenting as well. We will have a little break in between to give you guys a minute to go grab a Costa, stretch your legs, go to the bathroom, and then we'll finish it up here in the room with a Q&A session with everybody. And then after we're done with that, we'll head on over to dinner where we can continue the dialogue. So make sure you keep some

questions for dinner, but it should be a fun night and a great afternoon, and we're just thankful that you guys all made it. Thanks for coming. Bruno. I'll hand it over to you.

I should have said though, when you think about the leaders that are presenting today, and I didn't go through their thorough bios because I could be here all day, but important to note that collectively there's a hundred years of system experience sitting at the table, so very excited to hear what they have to say. Bruno, I'll hand it over to you.

Bruno Pietracchi

President of Latin America Operating Unit

Thank you, Robin. Welcome everyone, and we are delighted to host you in Mexico City today and I'm very happy to have our great partners here, which together account for about two thirds of the business in Latin America. So hopefully you'll get a great sense of where we are and where we are headed. If I were to put in my own words, I've taken over Latin America back 18 months ago and I'm very proud not only of the prior generations but what we did in these 18 months. On the same token, I'm extremely humbled because I truly believe the best is ahead of us and you see a little bit of the opportunity that we have ahead as well as what we are doing to capture this opportunity. We have both Coca-Cola FEMSA and ARCA Continental together with us, which is one of the proof points of the way we are operating in Latin America as one system doing things together and operating as a seamless end-to-end system in which we complement each other.

Mexico is probably the proof point of how high is high in the Coca-Cola system, and throughout the next hour and a half, hopefully you get a flavor on the mindset and the actions that has taken Mexico to deserve this badge. Every day this is a rented badge, and every day we come to work, we hope to be off the honor of having it again. I'll start with the Latin America view, then Luis Avellar will deep dive on Mexico and then we'll have Ian, Nico and Arturo covering the complimentary side from Coca-Cola FEMSA and ARCA Continental.

You are more than familiar with the forward-looking statements. We have to show that everything goes within that framework. So let's get started. A quick view on Latin America; we operate across 39 countries in the region serving a population of 650 million with 40 bottling partners. One critical differentiation of the Coca-Cola system is that we reach nearly 5 million customers in the region. How we are structured in Latin America is into three zones. You are here in Mexico, which is the North Zone. The North Zone accounts for 45% of the business in LATAM. I'm using volume as a proxy of the business. Then in between Brazil and Mexico and Peru is the central zone, which is 20% of the business. From Brazil down to the south down to Patagonia, we have 35% of the business. We have 40 bottling partners in the region. Coca-Cola FEMSA

and ARCA Continental together are two thirds of the business in the region. And then if we add Andina, Solar and Bepensa, the top five, are 80% of the business. So very concentrated in the hands of five highly capable bottling, bottling partners.

We do play a very important role in Latin America to the world, not only because we are a segment of reporting in itself, but more than that, we have 150 million daily transactions. We have more than 50% value share across the region and we believe we have a snapshot of what the Coca-Cola wants to be in terms of portfolio and innovation. So let me double click on that. We have approximately 30% of refillable mix and with refillables we can reach a lower price point and serve consumers in the base of the pyramid. We have nearly one third of our portfolio in refillable mix and at the same token we have one third the portfolio on single serve mix, which allows us more premium and a higher revenue per unit case per transaction approach. We are already 30% of the revenues come from digital orders, which is also paving the way for the Coca-Cola system globally. We are nearly 20% of the P&L of the company, and we have the highest consumer base across the nine OUs, highest colas per capita consumption, highest digitalized customer base, and highest Still business system profit. What I'm saying is that the size of our responsibility is proportional to the size of our business there. We don't take it for granted; we have to honor it every day.

This is a quite an eye chart, so let me try to guide you through that there four colors in the chart. The red guys are Coke consumers, and we define Coke consumers as weekly+ consumers that drink our products at least one time per week, 52 weeks in a row. They're very loyal to our brands. The grey ones that are subsequent are consumers that already have a high affinity to the category but do not yet drink our products once a week, 52 weeks in a row. We call them "intenders". The grey guys are those that have affinity to the category and then the blue ones are populational growth from here to 2030. If we focus on the first two groups, in particularly the second one, the grey that have high affinity with the category, the "intenders", we believe if we do the right things in the future, we can double the consumer base. We can convert the grey ones into red ones and therefore expand much further our consumer base. In the past, in the traditional way of doing market through TV and a "spray and pray" approach, we would target everyone. Now through digital and much more laser focused approach, we are over investing in those intenders and the early results are very encouraging.

If we look at the recent trajectory of the business in Latin America is worth noting. We have a volume growth of 6% over the past three, four years. We are growing transactions at 10%, which means that we are selling more of the smaller packages, which is in line with the strategy of bringing new consumers to the base. And then we are growing revenues and bottom line at nearly 20%. So, at this speed we mathematically are doubling the business

every five years. If we grew the bottom line at 15%, we would get there. And this is kind of the high-level ambition that we have for Latin America.

Now withstanding the track record, we pride ourselves to be a firm for talent globally and a firm for capabilities. Let me go in more details. There are in this chart nine executives that today belong to the top 50 executives of the Coca-Cola company that had extensive exposure to Latin America. The CEO and the CFO spent probably a decade operating the business in Latin America. I'll not go through every single individual, but again the same comment that Robin did at the beginning. There is probably a hundred years of exposure to LATAM in the senior leadership of the company, which means that the dialogue is very deep having come from other regions in the system which are much less known for top as executives. The dialogues here are much more constructive, much more granular, much, much deeper. The same holds true for capabilities.

We won't not go through every single one, but probably I'll start with the System Cooperation Framework. I believe the Latin America system is the most aligned system in the world, which means that in practical terms, all the energy is geared to fighting competitors and the macroeconomic environment, and we don't lose a lot of time internally fighting amongst ourselves. It is a major difference. I left Latin America seven years ago and for me is a major difference from what I had when I left. A lot of good work and evolution. The same around Revenue Growth Management and digital. I'll take out the two together. Revenue Growth Management started in Latin America, and now, we are probably continue pushing the edge and paving the way on that. Both Ian and Arturo will cover more of the details. Also, in the digital or the B2B ecosystem, I believe we are one of the most, if not the most, advanced system in the world, so you get a glimpse of what's to come next. I do believe we have a role to play in the near future in continue paving the way for what's to come in terms of capabilities globally.

And there's no better place than Mexico to illustrate what I'm talking about. In the years of my exile outside of Latin America, the seven years I spent, every time someone told me it was not possible, I referred them to Mexico. Let me give you a real example. Every time someone told me, "wow, we already have a lot of coolers. We don't have space for more coolers and stuff", Mexico has the highest cooler density, 140 coolers per thousand habitants, and we've added 80,000 cooler doors from last year. So, please, let's revise our numbers and push the boundaries. Today in Mexico, we have 20 billion transactions which translates into 40,000 transactions per minute. We have the highest volume in the world and we are growing five, six plus percent every year.

We have the highest per capita in the Coke system in Ready-to-Drink, and we continue growing at a faster pace, and we have the highest drinker base and we continue gathering and capturing new consumers. So this mindset of growing and thinking limitless is very embedded in the Coke system. And if we were to try to distil it in very simple terms on the right side of the chart, we

build brands that are loved. We rely on capable partners like FEMSA and Arca to make them universally available, not only in the physical world, but also in the digital world. And we do it in a way that is sustainable and that the communities in which operate benefit and which the people that we employ benefit all. Everything is centered on grading sites from consumers and customers which drive our decisions going forward. So with no further ado our transition to Luis who take over from here.

Luis Felipe Avellar

President, Mexico Operations

Thank you, Bruno. I think since I'm right there at the corner, might be better to come here at the front so it's clear for you to hear. Thank you very much for joining us for your interest in coming down to Mexico. I'm Luis. I'm heading our Mexican operations for The Coca-Cola Company and 22 years with Coke operating several countries and really excited to be here in Mexico. Hopefully, we can demonstrate and share what it means and what this limitless mindset means for our operation here in Mexico. I was once asked after operating in several markets, what Mexico represents for us globally as a system, and what is the next Mexico? If you think of our global footprint, then clearly, my answer is the next Mexico is another Mexico. There's so much opportunity and there's so much capability in this market and above all there is the right mindset across the system that we can make another Mexico out of Mexico.

I'll go quickly through these levers that Bruno mentioned to accelerate growth, and hopefully can transmit a sense of what we see about the opportunity here. It starts with the consumer. So, for us, we are leveraging the new marketing model and how digitally we can segment our consumers to move what we are calling "positive intenders" into Weekly+. "Positive intenders" are consumers that already consume one of our beverages, but do that combining with competitor brands or do that with lower frequency. So the lifetime value of converting those intenders into Weekly+ consumers, meaning they consume every week out of the 52 weeks in a year, is huge through those segmented digital experiences. So we're transitioning from exposure to experiences. We were able to increase 12% of our Weekly+ base last year and those connections happen either through product, through innovation as you are able to quickly experiment some of those in our innovation booth.

It happens in the retail through packaging connections and through retail experiences, and they can happen in life experience and passion points such as music, soccer, so on and so on. That growth, that connection, happened positively. I'll give an example of Trademark Coca-Cola, which is the lifeblood of our system. Through those relevant consumer connections, we were able to

bring iconicity back to Mexico. We connected 6 million people in the last Christmas season through the Coca-Cola Christmas parades.

And we have always done parades, but the difference is that now we are able to connect and collect data from those consumers and quickly interact, quickly engage and start leveraging that data in terms of loyalty, so on and so forth. Also, in experiential engagement. So we are transitioning our investment from the traditional media investment to a 70% non-television media mix investment and Cola-Cola Flow Fest is an example. It's proprietary music program here in Mexico. Also, in terms of innovation agility, hopefully you were able to try Coca-Cola Creations. Mexico is one of the most relevant markets for Coca-Cola Creations. Coke Creations is a platform for innovation, for conversations with our consumers, connecting through digital platforms with exactly the "positive intenders" that we want to reach out and convert into weekly plus and obviously leveraging our everyday presence with a broad packaging architecture. Hopefully tomorrow in the market you'll be able to see the reach of that portfolio, which goes back to the RGM discipline perfected over time and that we continue executing on the day-to-day.

We don't win only in Coca-Cola. To win sparkling, you have to win both in cola and flavors and what we do in Mexico is to supercharge by combining the scale of our global brands such as Sprite with the intimacy of our local jewels. Fresca is an example. We are also leveraging consumer connection and experiences with our global brands and working hard on product superiority. So innovation doesn't mean only new products. Sprite is an example of a refined formulation. We invested in 6 million sampling doses of the new formula. Sprite invested in dedicated cooler with superior execution, and it helped us continue as our number one brand in lemon lime. Similarly, Fresca is our flagship brand in the grapefruit segment. It's a much-battled segment here with Squirt and through the continuous investment plus the innovation, we were able to capture leadership in the grapefruit segment in on last year.

And basically, what we did with the innovation is through looking at the different occasions captured the mixing occasion with Frisco Fusion. So that continuous cycle is working for us on both colas and flavors. Talking about the network, you've heard probably in a few occasions I was mentioning in the network model, I believe in the stills business is where we can see the power of that network model coming to life. We merged or transformed four different business units into one operating unit for Latin America. The stills business unlocked a lot of value through focusing on the right categories and subcategories that are creative in profitability through leveraging optimal infrastructure across the region and lifting and shifting different products across markets. We are able to double our system operating income in the stills business and reaching approximately \$700 million for Mexico. So we have the largest and most profitable stills business globally here as well as part of this continuous network mindset.

If we go to the third capability, and this is again, as Bruno mentioned, the flagship for Latin America, we continuously step up our execution capabilities through a lot of discipline. It starts with RGM, and we'll go a bit deeper on how we are leveraging digital and AI to turbocharge our RGM platforms. How do we premiumize our portfolio in a market with such high per-caps and such high connection to the brands? There are many instances where we can capture higher value through premiumization. An example for that is the entrance into the alcoholic ready-to-drink segment and also a continuous push to be affordable and to keep the connection with the consumers. An example of this is the refillable packs. We have 30% mix of refillable packs, meaning bottles that can go and return from the market from 15 to 40, 50 times depending on plastic less or the format.

We are leveraging occasion-based platforms. Tomorrow we'll see a lot in the market, how we can continuously accelerate and capture the occasion platforms and also our execution, a day-to-day execution, quality of execution, cooler doors, priority portfolio. That discipline continues and now leveraged by distribution agreements. We learned from experimenting in different markets that those occasions are also our occasions. An example is socializing and snacking where there is room for multi categories. And in doing so, we are leveraging a positive impact also to the core portfolio. When we look at buyers versus non-buyers, the core portfolio also benefits from a broader portfolio and a higher relevance to the trade. We are continuously experiment on that and both Coke FEMSA and Arca will speak about it.

Digital is a capability for the enterprise and is a medium. As I mentioned, our investment from transitioning from the traditional media to digital means is obviously a disruptor. As in any industry, we are building this dynamic ecosystem with the bottlers focusing on the consumer, the customer, and the enterprise. On the consumer side, experiments like the connected pack, we have connections through our packaging with the consumers that no other CPG has. So how can we more and more leverage that data coming from QR codes in the packages, experiential platforms such as home delivery and consumer growth platforms. And also on the customer side, generative AI suggested order right promo price and pack- these are things that continuously perfect our capabilities.

Sustainability, our purpose is simple: to refresh the world and make a difference. So it needs to be embedded in our business results in Mexico. Those are basically the two key elements of our sustainability agenda. Water leadership, continuously raising the efficiency of water use per liter of final beverage and also replenishment of water in high stress locations. Mexico is a highly stressed water stress market, but we learned from previous experiences a couple of years ago, very severe in Monterey, now severe here in Mexico City that it doesn't matter if you're efficient, if you're replenishing, if the community right outside your plant does not have water access. So there

is a big effort also on providing water access to local communities. And also a proof point is the Coca-Cola Foundation also moving all its efforts towards water access and in parallel waste we continuously improve our collection rates in Mexico through our investments as a system, accelerating our recycled PET content in our packages and as I mentioned, our refillable volume mix, which is one of the highest globally.

With discipline across those elements, we believe we are super well positioned to capture another a hundred years of growth. You saw some of the portfolio from Santa Clara in the innovation booth. Santa Clara dairy brand this year is celebrating its centennial in two years. We celebrate the centennial of Coca-Cola in Mexico, and we have the opportunity in the same time to co-host the FIFA World Cup here, a super passion point. So these types of moments are also excuses that we use as a system to mobilize all the teams to mobilize investments and to continue pursuing that type of growth and that type of excellence.

Again, hope we could transmit some of the mindset and the opportunities we see. We continue pursuing those with discipline. Latin America is a powerhouse for the company globally, consistently delivering growth and will continue to do so. We're building consumer connections through different points of connection and through different types of engagement. We are super charging the flywheel with the digital platforms and with discipline in commercial capabilities that were born here, we're raised here who continue to be perfected here. Working together as a system, very harmonized, looking for growth and we believe in that context that Mexico is a good proof point of that growth mindset. We will continue to be under a very simple purpose of refreshing the world and make a difference. With that, I would invite my friend Ian Craig to share what they're doing in Coca-Cola FEMSA.